LEGISLATIVE AUDIT COMMISSION

Review of
Department of Agriculture
Two Years Ended June 30, 2003

622 Stratton Office Building
Springfield, Illinois 62706
217/782-7097

REVIEW: 4213
DEPARTMENT OF AGRICULTURE
TWO YEARS ENDED JUNE 30, 2003

FINDINGS/RECOMMENDATIONS - 12

NOT ACCEPTED - 2
IMPLEMENTED - 2
ACCEPTED - 8

REPEATED RECOMMENDATIONS - 1

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 7

This review summarizes the audit of the Department of Agriculture for the two years ended June 30, 2003, filed with the Legislative Audit Commission April 20, 2004. The auditors conducted a compliance audit in accordance with State law and Government Auditing Standards.

The Department is organized into five divisions including the Division of Food Safety and Animal Protection; the Division of Natural Resources; the Division of Agriculture Industry Regulation; the Division of Administrative Services; and the Executive Office.

The Director of the Department of Agriculture during most of the audit period was Joseph Hampton. His tenure ended in April 2003. Mr. Chuck Hartke became the Director on April 29, 2003. He had no previous association with the Department. The average number of full-time employees, by division, during the fiscal years indicated was:

Division	FY03	FY02	FY01
Executive Office	167	184	68
Agriculture Industry Regulation	117	132	81
Natural Resources	70	76	76
Food and Safety & Animal Protection	182	203	-
Animal Industries			76
Consumer Services			189
Marketing and Promotions			33
Fairs and Horse Racing			89
Total Employees	**536**	**595**	**612**
Horse Racing—Temporary Employees	121	107	137

Appendix A summarizes the Department's services and activities. This unaudited information is provided by the Department.

Appropriations and Expenditures

Appendix B summarizes appropriations and expenditures for the period under review. The General Assembly appropriated a total of $118,325,905 from numerous funds to the Department in FY03. Of the total, almost $51.8 million was appropriated from the General Revenue Fund. The Department also receives appropriations from the Agricultural Premium Fund and 21 other funds. Total expenditures from appropriated funds for the Department decreased from $133,445,393 in FY02 to $107,356,436 in FY03, a decrease of almost $26.1 million, or 19.5%. Lapse period expenditures for FY03 were about $6.5 million, or 6.1%.

Expenditures decreased in every division due largely to budget constraints.

Appendix C shows expenditures by major object codes and includes non-appropriated expenditures for FY03 and FY02. Total expenditures including non-appropriated expenditures for FY03 were $34.1 million less than in FY02.

Cash Receipts

Appendix D provides a summary of cash receipts for fiscal years 2003 through 2001. Total cash receipts changed from $38,915,152 in FY01, to $75,624,045 in FY02, to $39,160,597 in FY03. The changes from year to year in cash receipts, and the large increase in the Grain Indemnity Trust Fund in FY02 was due almost entirely to the insolvency of a single grain handling facility, Ty-Walk, whose liquidated assets sum the increase. The State Fair Promotional Activities Fund received a one-time grant from DCEO in FY02 for a warm-up ring at the Fairgrounds. The decrease in FY03 for the State Cooperative Extension Service Trust Fund was due to the State's fiscal crisis.

Property and Equipment

Appendix E contains a summary of the property and equipment for which the Department of Agriculture was accountable during the period under review. The beginning balance was $155,916,606 compared to an ending balance of $170,069,841. The $170 million in property and equipment was comprised of $29.8 million in land and land improvements; $115 million in buildings and building improvements; $25.3 million in equipment. More than $10 million of the increase was in buildings, and $3 million was in land.

Accountants' Findings and Recommendations

Condensed below are the 12 findings and recommendations included in the audit report. Of these, one is repeated from a prior audit. The following recommendations are classified on the basis of information provided by Laura Lanterman, Chief Fiscal Officer, Department of Agriculture, via electronic mail received October 21, 2004.

Not Accepted

4. Continue efforts to establish adequate procedures to administer and monitor grants to aquaculture cooperatives and document monitoring efforts.

<u>Findings</u>: The Department disbursed a total of $2 million in grants during FY02 and FY03 to an Illinois aquaculture cooperative. Both the Aquaculture Development Act and the grant agreement entered into by the Department and the Cooperative require the Department to review and comment on the Cooperative's proposed annual budget prior to the disbursement of grant funds. However, there was no documentation of such a review by the Department. There was also minimal documentation of any routine monitoring activity performed by the Department. There were no site visits documents, and only one instance of follow-up of financial information was noted. Although the Department did receive annual financial statements, no interim financial information was requested. The grant agreements did not establish any performance measures or quantifiable goods.

<u>Response</u>: The Department believes it has adequately monitored the disbursement of grant money under the Illinois Aquaculture Development Act to the Illinois Fish Farmers Cooperative. The Department has annually reviewed the Cooperative's budget and financial statements to ensure compliance with the statute and the grant agreements, and the Department has commented on the budget when appropriate. Because the Act is very specific as to what the grant money can be used, and since there is currently only one aquaculture cooperative in the State that the Department can grant money to under the Act, the Department does not feel that rules concerning the grant program are necessary or that performance measures are needed. Obviously, the Department was closely monitoring the grant because when it was suspected that the Cooperative may be experiencing problems, the Department increased its oversight of the grant and the Cooperative, met with the Board of Directors of the Cooperative to ascertain the situation at the Cooperative, spoke with producers and members of the Cooperative, and placed restrictions on the use of the grant funds to ensure that producers were paid.

<u>Auditors' Comment:</u> We stand by the facts as stated in the finding. There was no documentation to support the annual review and comment of the budget required by the Act. There was no documentation on site visits made by Department personnel. The Act provides that "Grants for the Cooperative shall be distributed from the Illinois Aquaculture Development Fund as provided by rule" yet the Department has not adopted any rules in the five years this program has been in existence. We believe rules establishing adequate procedures to monitor grants are not only required but appropriate for ensuring that State resources are expended for the purposes intended and that adequate accountability exists.

<u>Updated Response:</u> The Department continued to monitor the grant. Audited Financial Statements for the Cooperative were reviewed, the Cooperative was advised on conditions of receipt of grant funds, and a site visit was made. The processing plant is now closed, and the aquaculture fund has been terminated.

Not Accepted - concluded

6. Return the transferred funds to the appropriate trust account and with no further commingling of trust accounts. Pursue other sources for funding expenditures

necessary for the preservation of assets in trust accounts with insufficient funds.

<u>Findings</u>: During FY03, the Department transferred $20,000 from a trust account, established to account for the liquidation activity and payment of claims related to an elevator failure, to another similar trust account established in connection with an unrelated elevator failure. The transfer was made to enable the receiving trust account to pay expenditures to preserve an asset of that trust account.

The Grain Code requires that "proceeds realized from liquidation of and collection upon the grain assets, equity assets, collateral, and guarantees relating to the failed licensee or any other assets relating to the failed licensee that are received by the Department, to the extent not already paid to claimants, shall be first used to repay the Fund for moneys transferred to the Trust Account." Accordingly, it is essential that separate trust accounts within the Grain Indemnity Trust Fund be maintained and not commingled. The Department has maintained such separate accounting.

Department officials stated that the Illinois Grain Insurance Corporation Board of Directors had directed them to make the transfer between trust accounts in order to pay for asset preservation costs of the affected trust account. The Department also believed that the monies in the Grain Indemnity Trust Fund comprised a single trust account and that the transfer was acceptable because the money was used for an expense allowed by the Grain Code. However, this is not consistent with the Department's practice of maintaining a separate accounting for each failure.

<u>Response</u>: The Department admits that money was transferred from one sub-account in the Grain Indemnity Trust Account to another sub-account in the Grain Indemnity Trust Account that did not have sufficient money to pay expenses related to the preservation of an asset. The Department, however, disagrees that the Grain Code does not provide for such a transfer. Section 20-20 (a) of the Grain Code specifically provides that the "trustee shall pay from the Trust Account all reasonable expenses incurred by the trustee on or after the date of failure in reference to seizing, preserving, and liquidating the grain assets equity assets, collateral, and guarantees of or relating to a failed licensee." Moreover the definition of "Grain Indemnity Trust Account" contemplates such an expenditure and states that it is a "trust account established by the Director under Section 205-410 of the Department of Agriculture Law (20 ILCS 205/205-410) that is used for the receipt and disbursement of moneys paid from the Fund and proceeds from the liquidation of and collection upon grain assets equity assets, collateral, or guarantees of or relating to failed licensees. The Grain Indemnity Trust Account shall be used to pay valid claims, authorized refunds from the Fund, and expenses incurred in preserving, liquidating, and collecting upon grain assets equity assets, collateral and guarantees relating to failed licensees."

The money in the Grain Indemnity Trust Account was used for the specific purpose set forth in the Code for the preservation of an asset. Thus, the Grain Code specifically provides for the expenditure in this case. While the finding makes reference to Section 25-20 (d)(1) of the Code, it fails to realize that the payment of expenses as set forth in Section 20-20 (a) must be complete before all the money in the Trust Account is transferred to the

Illinois Grain Insurance Fund as contemplated by Section 25-20(d)(1). That is why the Department maintains money in the Trust Account for expenses and does not transfer all the money in the Trust Account immediately to the Fund.

Additionally, the Grain Code also only makes reference to a single Trust Account, not multiple trust accounts. However, in order to maintain adequate accountings of each failure, the Department maintains separate sub-accounts under the umbrella of the Grain Indemnity Trust Account for each failure. The fact that the Department maintains separate sub-accounts for each failure does not negate the fact that the expenditure was an allowable expenditure from the Trust Account for the preservation of an asset. The Department recorded the transfer, and the account the money was taken from will be made whole after that asset preserved is collected upon.

Further, as noted above, the situation was addressed at an Illinois Grain Insurance Corporation Board of Directors meeting. The Board found that the money in the sub-account could be used to preserve the asset and directed the Department to make the transfer. If the Department did not transfer the money, the Department could not have been able to preserve an asset worth $250,000. As noted above, when this money is collected upon, the sub-account in which the money was taken from will be made whole.

Updated Response: The Department has sent a request for the Attorney General's opinion on the matter.

Accepted or Implemented

1. **Update Systems Development Methodology to include procedures related to new system developments and modifications to existing systems by external developers. Once updated, ensure all system developments and modifications are performed in compliance with system development standards and properly approved, thoroughly tested, and adequately documented.**

   Require bureau-specific information systems needs be communicated with the Bureau of Computer Service to assure system developments and purchased systems meet the needs of the specific bureau; are adequately developed, documented and maintainable by technical personnel if necessary; and are compatible with existing information systems infrastructure.

Findings: During the audit period, the Department had contracted for $362,500 for the development of the Non-Fair Event System and the State Fair System. The auditors

Accepted or Implemented - continued

noted that these systems were not documented adequately, and were developed in a software language that is not currently supported by the Department.

During a review of the Department's development standards and methodology, the auditors noted the Department did not include procedures for contractual system developments. The Department did not have an approved long range plan nor an effective information systems steering committee, and as such, allowed non-IS Bureaus to hire programming personnel and contract systems development without communicating these developments to the Bureau of Computer Services. The lack of communications with and monitoring by the Bureau of Computer Services make it difficult to assure that system developments adhere to Department information systems development standards and that IS staffing resources are used efficiently.

Adequate system development standards would require new system developments and modifications to existing systems be properly approved, thoroughly tested, and consistently documented. Adequate documentation, including user system and operations manuals, should be developed throughout the development life cycle. In addition, a suitable methodology would require that specific contractual guidelines be developed in conjunction with contracts established for system development or modification, to ensure that the project was developed and documented in accordance with management's specifications.

Updated Response: The Department has worked on updating its Policies and Procedures to comply with the recommendation, but has not formally adopted any changes. CMS has begun acquiring the Information Technology bureau, which may completely change the Information Technology systems for the Department.

2. Update Crisis Management/Disaster Recovery Plan to reflect the current environment and ensure it is adequate for recovering computer operations within an acceptable timeframe. At a minimum, an adequate comprehensive contingency plan should include:

- **a list of prioritized critical systems for all platforms utilized,**
- **a risk analysis that outlines the tolerable amount of downtime for specific system,**
- **identification of the necessary resources to ensure the recovery of systems within the required timeframe,**
- **the identification and contact information of personnel assigned disaster contingency responsibilities and clear guidelines outlining their responsibilities,**
- **a list of backup tapes including their location for each system,**
- **detailed procedures for actually recovering the systems, and**
- **provisions for an alternate offsite recovery location.**

Findings: The Department has a significant investment in information technology with 46 applications on its local area network (LAN). The Department has classified 10 of these applications as critical to its operation and has over 35 applications with confidential information.

The Department has been migrating from a mainframe to a LAN environment; however, its Crisis Management/Disaster Recovery Plan had not been updated to reflect the change. The Plan, last updated in January 2003, only provided a framework for developing an appropriate response to a disaster event that would impact the Department. The Plan was not comprehensive and did not contain detailed procedures for recovering the Department's computer operations. Based on our review of the Plan, we noted the Plan did not contain:

- vulnerability assessments,
- documentation of the current infrastructure,
- configuration information,
- restoration time frames,
- complete contact information, and
- critical application information and response plans.

In addition, the Department had not performed a test of the Plan to assure the Plan is adequate for recovering at least its critical systems.

Updated Response: The Department recognizes the importance of having an adequate and tested comprehensive disaster contingency plan and has been working on expanding its plan and making it more comprehensive. CMS has begun acquiring the IT bureau, which may completely change the IT systems for the Department.

3. Audit all major systems of internal control as required by statute. (Repeated-1999)

Findings: The Department's internal auditing section did not perform audits of most major systems of internal accounting and administrative control during the two-year period ended June 30, 2003. Major systems which were included in the two-year audit plan but not performed included: budget, revenue/receivable, and personnel. During the audit period, the Chief Internal Auditor retired and was not replaced, leaving only one staff internal auditor for the Department.

Updated Response: Internal Audit was moved from the Department to the Illinois Office of Internal Audit on October 1, 2003.

5. Follow or modify procedures in place as well as implement procedures to strengthen property controls as follows:

- **The Director should approve transfers of surplus property. Alternatively, the Director should appoint a designee to be responsible for this function.**

Accepted or Implemented - continued

- **One or more locations should be used to accumulate surplus property. An individual should be assigned the responsibility for accounting for all items placed in these areas.**
- **Items reassigned within the Department should be reported to and approved by designated property control coordinators.**
- **Procedures should be implemented to enable computer property control coordinators to identify the location and status of all computer equipment.**
- **Property reconciliations should include documentation of adjustments.**

Findings: The Department did not have adequate controls over property and equipment. The following weaknesses in controls over property and equipment were noted during audit testing and during the auditors' review of testing performed by the Department's internal auditor:

- Transfers of surplus property to CMS totaling $442,196 and $653,844 in FY03 and FY02, respectively, were not approved by the Director.
- Equipment items removed from the location of original use and awaiting transfer to CMS as surplus property were not stored in a secured, designated area. Also, there was not a person designated with the responsibility of ensuring that items were either removed from the Department's inventory listing or that items removed were delivered to the CMS property surplus warehouse. Equipment determined to be surplus for one bureau from other bureaus needs to be documented to ensure the Department's equipment records remain current, and that all items can be located and adequately safeguarded.
- In the Department's inventory of equipment for calendar year 2002 there were 200 items out of 10,834 that could not be located. The cost of the items not located was $170,275. Approximately half of the items not located were computer equipment.
- Adjustments necessary to the quarterly property report (C-17) submitted to the State Comptroller were not well documented.

Updated Response: The Department has modified its property control procedures to incorporate the recommendations of the finding. The Director has designated someone to approve transfers of property to State surplus. One location is now used to accumulate surplus property. It is locked, but several people have access. The property control coordinator has developed new procedures for surplus property and control of computer equipment and is monitoring very carefully for compliance.

7. Either implement compensating management controls or segregate duties over the fiscal operations of the Purse Fund.

Findings: The Department collected $2.7 million and $2.8 million in FY02 and FY03, respectively, in the Purse Fund. Approximately 97% of the collections were in the form of checks and the remaining 3% were in the form of currency. The person responsible for preparing the deposit slips for the Purse Fund also delivered the deposits to the bank, received the monthly bank statements, performed the monthly bank reconciliations, and prepared the locally held funds quarterly report. Management personnel did not perform a supervisory review of the deposits, reconciliations or reports.

Response: Accepted. The Bureau will implement compensating management controls over the fiscal operations of the Illinois Colt Stakes Championship Purse Fund. At a minimum these controls will include procedures that will require another employee to reconcile monthly bank statements to the Purse Fund records.

Updated Response: The Department has implemented procedures that require another employee to review and sign off on the activity and bank reconciliations for the fund.

8. Implement procedures to ensure monthly tonnage reports are received and reviewed by Department personnel and compared to the semi-annual reports.

Findings: The Illinois Fertilizer Act requires those who sell or distribute commercial fertilizer or custom mix to non-registrants to mail a monthly summary report to the Department on or before the 10th day of each month. The monthly report is required to disclose the name and county of the consignee and the amount in tons of commercial fertilizer or custom mix distributed to non-registrants during the preceding month. Distributors are also required to file a semi-annual report of net tons of commercial fertilizer or custom mix distributed during the semi-annual period and to pay the Department an inspection fee based on the number of tons of fertilizer distributed. The auditors noted 21 of 36 distributors either did not file all of the monthly reports or the monthly reports did not agree to the semi-annual report.

Response: Accepted. The old fertilizer program on the main frame was unable to total the monthly tonnage reports being submitted by the companies. The bureau has a new fertilizer program, which will be able to follow the monthly tonnage and have the ability to get a total for each month or all six months. This program will ensure that the Department is collecting the proper tonnage tax due. The new system should be completed before the end of April.

Updated Response: The fertilizer program has been completely updated and all reports should be completed as required.

9. Remind personnel of travel documentation requirements and carefully review travel vouchers to ensure departure and arrival times are correctly stated prior to approval.

Accepted or Implemented - concluded

Findings: The traveler's departure and arrival time was either not completed or incorrectly entered on 13 of 159 travel vouchers tested for FY03.

Updated Response: This finding related primarily to employees of the Weights and Measures Bureau, who make many stops in one day. The employees completed the daily original departure time and location and the arrival time and location, but not the time and location for each stop along the way.

The Agency contacted the Travel Bureau, questioning the necessity of reporting arrival and departure times for each stop in a day, a task that is time-consuming at best. The Travel Bureau stated that the Agency's current method of travel voucher preparation is adequate and any need for a stop by stop reporting would be a decision internal to the Agency. The Travel Bureau referred the Agency to page 72 of the travel manual for clarification. "The purpose of the travel voucher is to make claim for reimbursement for travel expenses incurred while on travel status. Only expenses related to the travel should appear on a voucher…" The Travel Bureau also recommended contacting the Comptroller's Office for their opinion. The Agency did, and was told that the travel vouchers were acceptable as prepared.

The Agency will continue to accept travel vouchers prepared in this fashion. However, there was one voucher tested in the audit that had some arrival/departure times missing. The Agency sent a memo to employees regarding travel voucher preparation and has been monitoring submitted vouchers more carefully for correct completion.

10. Train petty cash custodians and ensure that monthly reconciliations of petty cash funds be performed.

Findings: Four of ten petty cash funds tested were not reconciled. The petty cash bank statements had been reviewed to identify service charges and to determine checks and deposits had cleared the bank. However, the balances maintained by the petty cash custodians had not been reconciled to the fund balance of the petty cash accounts. Two of the ten funds tested had balances in excess of $1,000.

Updated Response: A memo has been sent to custodians of all petty cash funds reminding them of the procedures for maintaining the funds. It should be noted that a fund that is authorized for $1,000 might at times exceed $1,000. The funds are all in interest-bearing checking accounts with Illinois Funds and interest is paid monthly. The interest earned for the fiscal year is paid out of the petty cash fund at year-end.

11. Promulgate rules and establish procedures to fulfill the duty to administer the requirements of the Halal Food Act.

Findings: Establishments that grow, prepare, or sell foods prepared under and maintained in compliance with the laws and customs of the Islamic religion, halal foods, are required to post information regarding such representation. Such establishments are to be subject to record keeping, labeling and filing rules prescribed by the Director of the Department of Agriculture, and may not sell any food represented to be halal unless they have registered with the Director. The Director is required to adopt rules to carry out the provision of the Halal Food Act. The auditors noted that no rules regarding halal foods have been established, nor has any system been established for the halal food dealers to register with the Director as required.

Updated Response: The Department has not adopted rules to implement the provisions of the Halal Food Act. The representatives of the Islamic community that the Department was working with are no longer available, and the Department does not have access to the experts it needs to promulgate the rules. There has also been no interest in the Department's program.

12. Continue efforts to obtain amendatory legislation to conform the Soil Conservation Domestic Allotment Act to agree with the Federal Act.

Findings: The Soil Conservation Domestic Allotment Act contains obsolete provisions requiring the preparation of an annual plan and the filing of an annual report with the U.S. Secretary of Agriculture.

Updated Response: The Department will seek legislation that abolishes the Act.

Emergency Purchases

The Illinois Purchasing Act (30 ILLS 505/1) states, "The principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts..." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records. The chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make "quick purchases," including but not limited to items available at a discount for a limited period of time.

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY03 and FY02, the Department filed no affidavits for emergency purchases.

Headquarters Designations

REVIEW: 4213

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all its officers and employees for whom official headquarters have been designated at any location other than that at which official duties require them to spend the largest part of their working time.

As of July 2003, the Department had 206 employees assigned to locations other than official headquarters.